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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF
KOREA DEVELOPMENT FINANCE CORPORATION

April 12, 1971

Development Finance Companies Department

CURRENCY EQUIVALENTS

US\$1.00 = Won 315

W1,000 = US\$3.17

W1,000,000 = US\$3,174.60

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This report is based on the findings of a mission, composed of Messrs. Takaramura and Dinh, which visited Korea in October 1970.

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SUMMARY

1. Korea Development Finance Corporation (KDFC) has applied for a third Bank loan, of \$30 million. It expects that a Bank loan of that amount would be sufficient to meet about three-fourths of its requirements for financing the imports of its borrowers until the end of 1972.
2. KDFC was established in April 1967 under the sponsorship of the Federation of Korean Industries (formerly Korean Businessmen's Association) with the active support of the Government and the Bank Group. Its financing was completed in February 1968, when the subscriptions of the foreign investors and IFC were paid in. KDFC's objective is to assist private industrial investment in Korea.
3. Korea's manufacturing sector has been expanding at a very rapid rate. Its output growth in real terms during 1965-1969 was 22% per annum, twice as fast as the growth of GNP. Exports of manufactured products have since 1965 increased about twice as fast as manufacturing production, and in 1969 accounted for 15% of total manufacturing production (in terms of gross output) and about 79% of Korea's total exports. Total merchandise exports reached \$658 million in 1969, and are estimated to have approached \$1,000 million for 1970, an increase of more than 40% over 1969. The future growth of the Korean economy depends heavily on the continued expansion of the export-oriented manufacturing sector, for which the prospects remain good. Financial problems are among the more difficult that face Korean industrialists. The capital and money markets are embryonic. Venture capital is in short supply, as are short-term funds at reasonable rates. The "unorganized" (curb) market supplements other resources, but at interest rates of up to 5% a month.
4. KDFC is well organized and efficiently managed and its professional staff is competent. The Board of Directors and the Executive Committee have shown good judgment in their investment decisions. Project appraisals are of high standard. Project supervision needs improvement, in view of the growing portfolio, and is receiving the management's close attention. Internal procedures are thorough and the work flow is efficient. KDFC's portfolio is sound.
5. As of December 31, 1970, a total of 79 loans and equity operations had been approved, amounting to US\$36.2 million equivalent. KDFC's approvals during 1970, its third year, totalled about US\$21 million equivalent, 38% more than the aggregate of approvals during its first two years, 1968 and 1969. Business prospects for the next two years appear good.
6. Although the proportion of KDFC's financing is small in relation to estimated gross domestic capital investment in manufacturing, the company has made an important qualitative contribution to higher project evaluation standards and sound development banking practices in Korea.

7. KDFC's total assets, at December 31, 1970, stood at about US\$25.4 million equivalent. Available resources of foreign exchange totalling \$28 million (two Bank loans of \$25 million and a \$3 million AID loan) had been largely committed by the end of 1970. Out of total Won resources of about W4.8 billion (including a government subordinated loan of W2,025 million), an amount of W2.85 billion has been committed. The balance of about W1.9 billion is expected to meet KDFC's requirements until the end of 1972. KDFC expects to obtain further Won funds by new issues of share capital amounting to W903 million in early 1972 and W675 million in 1973. KDFC's profitability is relatively high and from the 1970 results (net profit of 40.7% on share capital and 21.1% on year-end net worth) the company has declared a 20% dividend, 10% cash and 10% stock.

8. On the basis of projected commitments for financing imports of about US\$41 million during the two-year period beginning January 1971, a third Bank loan to KDFC of US\$30 million is justified. Considering the size of KDFC's loans and the high standard of its appraisals, an increase in the free limit to US\$500,000 from US\$300,000 is recommended. The debt/equity ratio ceiling should be kept at 3. The loan should be made on the terms generally applied to loans to development finance companies.

KOREA DEVELOPMENT FINANCE CORPORATION

BASIC DATA

Year of establishment 1967

<u>Ownership (Dec. 31, 1970)</u>	<u>Amount of shares (W million)</u>	<u>Percentage of Total</u>
Domestic	902	61
IFC	211.8	14
Other Foreign	<u>371.2</u>	<u>25</u>
	1,485	100

IBRD Loans

<u>Loan No.</u>	<u>Date Signed</u>	<u>Rate of Interest</u>	<u>Status as of Dec. 31, 1970 (in US\$ '000)</u>		
			<u>Amount</u>	<u>Credited</u>	<u>Disbursed</u>
529-KO	Jan. 31, 1968	Variable	5,000	5,000	4,135
622-KO	June 26, 1969	6½%	20,000	16,996	4,454

Operations

<u>Approvals</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>Total</u>
Local currency loans (W million)	320	575	920	1,815
Equity investments and convert- ible debentures	260	638	369	1,267
Foreign currency loans (\$'000)1/	<u>2,128</u>	<u>7,533</u>	<u>16,943</u>	<u>26,604</u>
Total (W million)	1,176	3,512	6,667	11,355

Commitments

Local currency loans (W million)	270	595	711	1,576
Equity investments and convert- ible debentures	260	638	369	1,267
Foreign currency loans (\$'000)1/	<u>461</u>	<u>8,106</u>	<u>15,465</u>	<u>24,032</u>
Total (W million)	659	3,697	5,989	10,345
<u>Disbursements</u> (W million)	300	2,057	3,378	5,735

1/ Exchange rate applied: US\$1 = W280 for 1968
= W305.2 for 1969
= W311.2 for 1970

December 31	<u>1968</u>	(W million) <u>1969</u>	<u>1970</u>
<u>Financial Data</u>			
a) Total assets	3,924	5,157	8,018
of which loan and equity portfolio	300	2,328	5,660
Long-term debt	2,025	2,719	4,925
Won subordinated loan	2,025	2,025	2,025
Foreign currency loans	-	694	2,900
Equity	1,893	2,413	2,881
Long-term debt/equity	1.1:1	1.1:1	1.9:1
Long-term debt/equity as defined in Bank Loan Agreement		0.15	0.65
(Percentages)			
b) Earnings before tax and provisions as % of average total assets	17.9	11.5	10.4
Profit after tax and provisions as % of average equity	31.2	24.1	22.8
Reserves and provisions as % of portfolio	181.2	45.1	23.6
Financial expenses as % of average total assets	3.2	2.6	3.6
Administrative costs as % of average total assets	4.4	3.8	2.9
Book value as % of par value	140.2	178.6	193.3
Cash dividend as % of par value		10.0	10.0

APPRAISAL OF
KOREA DEVELOPMENT FINANCE CORPORATION

I. INTRODUCTION

1. The Bank Group collaborated actively with KDFC's sponsors, the Federation of Korean Industries (formerly Korean Businessmen's Association), in shaping the plans that led to KDFC's establishment in 1967. KDFC is the largest privately-controlled development finance company in Korea and operates alongside a few government-owned financial and investment institutions. KDFC has received two loans from the Bank totalling US\$25 million. The company's performance (last reviewed in the appraisal report No. DB-49 of April 24, 1969) has been satisfactory and the second Bank loan, US\$20 million, is expected to be fully committed early in 1971. In view of the substantial volume of pending applications for financing, KDFC needs new capital soon. This report appraises KDFC and recommends a third Bank loan, for US\$30 million.

II. ENVIRONMENT

Recent Economic Growth

2. The economic background to KDFC's operations is described in the latest economic report on Korea (EAP-12a, March 16, 1970).

3. KDFC's establishment in 1967 coincided with the launching of the second Five-Year Plan 1967-1971. Since then, the Korean economy has grown rapidly. In 1969, per capita GNP reached \$195 and real GNP increased by 15.9%. The most important growth stimuli have been investment and exports. Investment reached 27% of GNP in 1968 and 30% in 1969. Gross fixed manufacturing investment reached \$370 million equivalent in 1969. Exports increased by 33% in 1969 and about 45% in the first nine months of 1970. On the basis of provisional figures, exports for 1970 are expected to come close to \$1,000 million. The high growth rate, however, has created some imbalances and considerable strains in the economy resulting in continuing inflation (about 10% a year), an increasing trade deficit and a rapidly mounting external debt service. To cool down the overheated economy the Government put into effect, late in 1969, a stabilization program consisting mainly of slowing down investments, curbing private foreign borrowing and restricting bank credits.

Industrial Environment

4. Recent expansion. Manufacturing has been the fastest growing sector of the Korean economy. Its output growth in real terms during 1965-1969 was 22% per annum, twice as fast as the growth of GNP. The share of manufacturing

in GNP has increased from 14% in 1960 to 26% in 1969. The most important manufacturing sectors are textiles, food processing, plywood, rubber products, chemicals, metal products and machinery. Exports of manufactures were growing even faster than total output, at nearly 50% per annum, and account for about 80% of total exports in 1970. Exports of manufactures in 1969 amounted to \$555 million and consisted of textiles (49%), machinery (9.4%), processed foods, chemicals, metal products and plywood.

5. Structure. During 1965-1969, the output of consumer goods has increased somewhat less rapidly than that of intermediate and capital goods; however, the proportion of consumer goods in total manufacturing output is still preponderant (55%). Increased production of consumer goods has been stimulated mainly by rising domestic and export demand. In spite of the rapid increase in the production of capital goods (such as machine tools, electrical and transport equipment), Korea is still heavily dependent on imports in this category. The growth of intermediate goods production has contributed substantially to import substitution; the share of imports in the total supply of intermediate goods fell from 43% in 1965 to 19% in 1968. The share of heavy industry (chemicals, metal products and machinery), in terms of total value added, increased from 11.8% in 1960 to 28.9% in 1969. Not surprisingly, Korean manufacturing is becoming increasingly capital-intensive, as evidenced by the higher growth rate of gross manufacturing investment (48%) during 1967-1969, in comparison with manufacturing employment (17%).

6. Industry is predominantly privately owned. The government owns only about 5% of the total capital invested in manufacturing industry. There is a tendency towards the concentration of industrial production in large enterprises, although small (less than 50 employees) and medium-sized (50 to 200 employees) enterprises are still important and account for 40% of industrial output. Geographically, there is a heavy concentration in the two largest urban centers, Seoul and Pusan, which together account for about one-half of total industrial production.

7. Government incentives. The development of Korea's manufacturing industry has relied mainly on private initiative, but government policies have played an important role. The government encourages export-oriented enterprises. As in many countries, exemptions from import duties on raw materials and intermediate goods used for making export products are given as an inducement to exporters. Profits earned from exports bear income taxes at 50% of the normal rates. Another important policy instrument influencing industrialization is long-term finance provided to industry by government-owned specialized institutions at subsidized interest rates. The total of export incentives in the form of tax concessions, import duty exemptions and interest rates subsidies in 1968 was equivalent to W82 for each dollar earned, or 30% of export value. These export incentives were partly or wholly offset by the overvaluation of the Won exchange rate. Prohibition of and quantitative restrictions on certain imports have also had the effect of stimulating domestic production, but sometimes at the cost of high prices to the domestic market. The system of import restrictions is reasonably flexible and tariffs are generally lower (20% to 30%) than in developing countries at similar levels of industrialization. The foregoing suggests that Korean industry operates in reasonably

competitive conditions and the recent rapid growth of manufactured exports reflects their international competitiveness. ^{1/}

Financial Environment

8. Interest rates. Interest rates in the organized market are managed by the Korean authorities. (See paragraph 12 below for comments on the unorganized market.) After successive reductions, the current typical lending rate of the commercial banks is 24% per annum, while the interest rates on time deposits range from 12% per annum for 3-month deposits to 22.8% for 12-month deposits.

9. While commercial bank loans bear high interest rates, certain industries have access to credit at preferential interest rates, mostly from fiscal funds channeled by the specialized government financial institutions. Those rates on domestic currency loans range from 12% p.a. for long-term loans to priority industries to 23% p.a. for working capital loans to other industries. At 20-24% p.a. the domestic market interest rate on loans for private enterprises is still much higher than that on foreign loans (private loans and suppliers' credit), generally at a nominal rate of around 8%. This wide disparity has encouraged excessive medium-term borrowing from abroad by private industry, in spite of the exchange risk. From 1962 to August 1969, such foreign financing in the manufacturing sector amounted to \$823 million (or about 41% of total financing), of which the bulk came in the form of private loans (\$583 million). The effects on Korea's debt service burden have prompted the government to impose restrictions on such borrowing. One consequence of the restrictions has been an increase in the demand for KDFC's assistance. The government is also considering the introduction of an interest equalization tax to reduce the discrepancy between the cost of foreign and domestic loans.

10. Capital market. The capital market in Korea still plays only a minor role in channeling private savings into productive investment. The volume and range of securities available on the Korea Stock Exchange remain limited. Because of the existence of attractive alternative investments such as curb market placements, bank time deposits and public bonds, the investing public has little interest in the stock market; interest rates on private loans, bank time deposits and public bonds are higher than the average yield on stocks. Moreover, companies prefer to remain closely held, in spite of the tax advantages recently made available to public corporations as a measure to encourage wider share ownership. Transactions are small in volume and speculative in nature, largely confined to professional brokers and centering on a few issues.

11. The Government, realizing the excessive dependence of Korean enterprises on loan capital (average debt/equity ratio is 3:1), the disadvantages of the traditional family and closely-held companies and the need for

^{1/} Please see Economics Department Working Paper No. 86, "Industrial Policies in Taiwan and Korea", of August 14, 1970, by Bela Balassa, transmitted to the Executive Directors October 8, 1970.

mobilizing additional domestic resources, has tried to promote equity investment through the organized capital market. In 1968, it promulgated the Capital Market Promotion Law which established the Korea Investment Development Corporation (KIDC) to engage in underwriting and security transactions, and provided preferential corporate tax rates and special depreciation allowances for "open" corporations. The Government also approved the establishment of securities departments in commercial banks to enable them to deal on the stock market. These measures are expected eventually to stimulate the capital market, although so far few results are apparent. In 1969, KIDC underwrote 9 issues for a total amount of about W2 billion but succeeded in placing less than 50% with the public.

12. Money market. There exists in Korea a large unorganized (curb) money market, with an estimated annual turnover of about \$2 billion and loans outstanding (as of March 1970) of about \$250 million equivalent. Curb market loans amount to about 17% of total commercial bank loans. Although the existence of a curb market is a common phenomenon in developing countries, the size of the market in Korea is unusual and appears to be due partly to the government's fiscal and financial policies. The main reasons for the large size of this market are: (i) the non-availability of remunerative short-term credit instruments available to attract short-term savings; banks pay only 1% a month on 3-month time deposits, and no interest on deposits of less than 15 days; (ii) the relatively low tax rate (16.5%) on interest income from private loans, in comparison with corporate income tax of up to 49.5%; and (iii) the recently implemented tight money policy, which has restricted bank loans. About one half of the principal manufacturing enterprises in Korea meet a part of their working capital loans from the curb market, at interest rates ranging up to 5% a month. KDFC, in consultation with the government, is taking the lead in seeking to devise a mechanism which will mobilize resources for productive enterprises more efficiently and economically than the curb market (paragraph 38 below).

13. The Korean Government is aware of the need both to stimulate the capital market and to establish a viable organized money market. Further improvements are currently under study, and various steps towards reorganizing the stock exchange and the money market are contemplated. At the request of the Government, an IFC mission visited Korea in November-December 1970 to assess the situation and to discuss with the government KDFC's scheme for the new financial institution referred to in the preceding paragraph. The Government intends to implement the scheme and has requested IFC's participation. IFC sent another mission in March-April 1971 to work out with the Government and KDFC a concrete proposal for establishing the new institution, and to appraise the scheme.

III. KDFC's ROLE IN THE ECONOMY

KDFC as a Source of Industrial Finance

14. Other institutions in Korea. KDFC is one of three specialized institutions providing long-term development finance. Particulars of KDFC's shareholders, board, organization, policies and resources are given in Annexes 1 to 5. The other institutions are the Korea Development Bank (KDB) and the Medium Industry Bank (MIB), both government-owned.

15. The main source of long-term finance has been KDB which finances both public and private sector projects acting largely as an intermediary for channeling government funds, AID counterpart funds and foreign funds. The Government has used KDB for implementing a variety of programs. Besides manufacturing, the sectors receiving KDB's assistance are mining, construction, transportation, services and infrastructure. KDB has also been a principal source of housing construction loans. KDB's outstanding portfolio of loans and investments at year-end 1969 stood at W131 billion, of which W60 billion consisted of loans to and investments in the manufacturing sector. Of the amount of W60 billion, W14.6 billion represented working capital loans. KDB's financing of the manufacturing sector in 1969 accounted for one-fourth of total manufacturing investment in Korea. Besides fiscal funds obtained from the Government, KDB derives its resources from debentures and deposits from the public (although at interest rates higher than its lending rates), and from borrowings abroad.

16. MIB specializes in lending to enterprises employing not more than 200 employees, or having total assets not exceeding W50 million. In 1969 MIB's lending represented one-fourth of the total outstanding loans to those industries. As of December 1969, MIB's outstanding portfolio amounted to W35.6 billion of which 36% was represented by loans for capital goods and 64% for working capital.

17. Commercial banks, predominantly government-controlled, nominally supply industry only with short-term loans up to one year, although in practice the term is often extended. The banks require substantial collateral from the borrowers. KIDC, established in 1968, introduced underwriting to Korea in 1969 but its contribution to equity financing and the growth of the capital market has so far been modest.

18. Industrial financing by KDFC. KDFC, which made its first investment decisions only in July 1968, is still relatively new and small in comparison with the Government-owned KDB and MIB. Total disbursements by KDFC in 1970 of about W3.3 billion (US\$10.4 million equivalent) represented 2.7% of the estimated gross domestic fixed capital investment in manufacturing of W125 billion. In the particular field of long-term lending to large and medium-scale industries, however, the role of KDFC is already significant. Its outstanding portfolio of W5.7 billion as at December 31, 1970, represented about 10% of the estimated total amount of outstanding loans for industrial capital goods

in Korea. It is clear that KDFC is able to compete for business successfully against the larger institutions in spite of charging generally higher rates of interest.

19. While KDFC's quantitative contribution to Korea's economic growth may never become very large in relation to KDB's and MIB's, its qualitative contribution is already significant and is likely to become more so. Both directly by its work on clients' projects and indirectly by its example, it is helping to raise project appraisal standards in Korea (see paragraphs 46 to 48 below) thus contributing to a more efficient allocation of resources. Most important of all, KDFC's reputation for integrity appears to stand very high, in both Government and private circles.

20. Features of KDFC's operations. KDFC's approvals sharply increased in 1970, its third year of operation. Total approvals during the year amounted to W6.7 billion, 38% more than the combined totals for 1968 and 1969. Disbursements, however, are not expected to reflect that high level until 1971, because of the usual time lag between commitments and disbursements. As of December 31, 1970, total disbursements amounted to W5.7 billion against cumulative approvals of W11.5 billion. Details of loans and investments are given in Annexes 6 to 10, and the more important aspects are discussed below.

21. Sectoral distribution. KDFC's portfolio is well diversified among various industrial sectors. Exposure in the textile industry (including synthetics), the most important in Korea, is high; about 30% of KDFC's portfolio is invested in it. But within that sector the portfolio covers a wide variety of operations. Other sectors receiving KDFC's assistance are paper products, rubber tires, glass, cement, plywood, basic metals, metal products, electrical equipment and appliances, containerized shipping, and food and beverages. The company intends further to diversify its portfolio by financing new manufacturing activities such as electronics, heavy machinery and petrochemical products.

22. The greater part of KDFC's lending and investment has been directed, as a matter of deliberate policy, to export-oriented projects. (The importance of exports to Korea is referred to paragraph 3 above.) KDFC estimates that in 1969, net foreign exchange earnings achieved by its clients amounted to \$16.8 million, in addition to a substantial sum in net foreign exchange savings through import substitution. No estimate is available, however, of the proportion of such earnings and savings attributable to the projects financed by KDFC, since most KDFC investments were for expansions.

23. Size of loans. There is a marked trend towards larger loans. Loans over W150 million (\$480,000), in relation to total lending, increased from 28% in 1968 to 67% in 1969 and 87% in the period January/September 1970. By number, 14 loans out of 22 made during the first 9 months of 1970 were for more than W150 million each. Available information on the projects in the pipeline shows that the percentage of larger loans is likely to continue to grow with the growth in the average size of industrial establishments in Korea. KDFC recognizes the need to avoid concentrating its resources on a

small number of clients, and to encourage new entrepreneurs. Its Policy Statement prohibits the company from committing to any single enterprise more than 15% of the sum of KDFC's paid-in capital, free reserves and the government loan. This limit is presently about W730 million (\$2.4 million). KDFC alone therefore cannot finance very large projects and has begun to seek opportunities for joint financing. It has so far approved one such project, in which it is in partnership with Korean and German interests.

24. KDFC has approved four equity investments and six investments in convertible debentures, for a total of W1,267 million; this amounts to about 11% of its total approvals of W11.5 billion, and to 40% of total Won approvals. Equity investments made at a cost of W180 million, which are quoted on the Stock Exchange, had a market value at December 31, 1970, of W234 million. The remaining equity investments and convertible debentures are not quoted on the Stock Exchange. It is evident that KDFC has made a start in providing finance in the form of securities, in spite of the reluctance of closely-held Korean companies to admit outsiders to a share in ownership. With the expected improvement in the securities market and the inducements to Korean companies to go public, KDFC expects to become more active in the field of equity financing.

25. Although KDFC is authorized to underwrite security issues, it has not yet done so. As noted in paragraph 11 above, the government-owned KIDC introduced underwriting operations to Korea in 1969, although with only limited success. KDFC has stated its intention to enter progressively into the underwriting field, when it can do so.

26. Local currency and import financing. At December 31, 1970, total approvals of Won loans and investments numbered 45 and amounted to W3.1 billion; foreign currency loans numbered 34 for an amount of W8.4 billion. Won financing thus represents about 27% of total financing. This proportion of local currency financing is expected, on the basis of the projections, to remain for the period 1971-1975 at about the same level. The scope for Won lending is, in general, restricted by KDFC's practice, as matters of prudent financial policy, of limiting its financing usually to one-half of total project cost and of requiring the borrower to contribute at least one-third of the capital required for the project. On the basis of experience during the past year with KDFC projects requiring both foreign exchange and Won financing, direct imports averaged about 45% of total project cost (or 51%, if working capital is excluded); and KDFC has provided for such projects an average of 85% of the import financing required, that is, 38% of total project cost. KDFC does not lend for working capital, except, in a few cases, in conjunction with loans for capital goods.

27. Past operations and future outlook. KDFC's financing policies have been justifiably cautious in its first three years of operation. KDFC's portfolio is composed mainly of straight loans (89%), with the balance in share investments and convertible debentures. The financing went to projects for the expansion and modernization of existing firms to the extent of 87%, as against 13% for new projects. This preponderance of lending to existing firms

reflects both the recent tendency of Korean industry to consolidate, and KDFC's caution in its early years. The majority of financing of existing firms involved expansion of production capacity to achieve an economic scale of production and reduce production cost, or modernization of production facilities to improve product quality and operational efficiency. KDFC has not undertaken any promotional activities so far, partly because of staff limitations in the build-up period, and partly because promotion was not needed in the face of the large number of investment projects seeking finance in Korea. KDFC has been operating in a seller's market and could be selective in its choice of projects. This policy was a wise one for a development finance company in its infancy. It has enabled KDFC to create a sound portfolio in a short period. It has also earned KDFC a solid reputation for soundness and efficiency.

28. The company's management is preparing KDFC for an expansion of its activities. It foresees that the expected slowing down of the growth rate of the Korean economy may give promotional work greater urgency and importance. KDFC is taking steps to equip itself to provide technical assistance and management consultancy services, initially to its client companies and subsequently to outside companies. To that end it plans to set up a new department. These services would represent a specialized development of the advice it is already giving clients in the course of project appraisal (paragraph 48). Korean industry stands in need of such services. The proposed expansion of KDFC's activities into the fields of project promotion and management consultancy are logical developments and should enable KDFC to enlarge its qualitative contribution to economic development in Korea.

KDFC as a Mobilizer of Industrial Finance

29. Past efforts at resource mobilization. A long-range objective of KDFC is to mobilize capital not only from its own shareholders and governmental, international and bilateral sources, but also from private markets in Korea and abroad. To date, however, the sources of KDFC's funds are limited to its shareholders, the Government, the World Bank and USAID. Except for a USAID loan of \$5 million forming part of KDFC's initial capitalization (but since then reduced to \$3 million 1/), KDFC has depended until now entirely on World Bank financing for its foreign exchange requirements. KDFC obtained a line of credit for \$5 million from Caterpillar Far East Ltd., made effective early in 1971. That credit will be available only for the import of specialized Caterpillar equipment from the United States and its use in meeting KDFC's financing needs will be correspondingly restricted.

1/ Because AID considered the pace of commitment to be too slow. The AID loan was tied to U.S. procurement, while a large part of Korean industry's demand for imports is directed to the very competitive Japanese market.

30. KDFC's domestic currency mobilization to December 31, 1970, consists of a subordinated government loan of W2,025 million, its share capital of W1,485 million (including a 10% stock dividend) and retained earnings of W1,396 million. The Government loan thus amounts to 40% of KDFC's Won resources, and share capital and retained earnings amount to 60%. These resources have so far been sufficient for its needs. A change in that situation is now in sight. In spite of the state of development of the capital market and of the interest rate structure in the country, which are factors inhibiting efforts to mobilize local resources, KDFC plans to increase its share capital by 55% in 1972 and by 25% in 1973, for a total additional amount of W1,578 million. The second issue may be of preferred shares.

31. Interest rates. KDFC's lending rates are determined by its Board. KDFC charges 10% per annum for loans denominated in foreign currency (with the borrower assuming the exchange risk) and 20% per annum for loans in Won. The Won lending rate is 4% less than commercial bank rates, but several points higher than the concessionary rates charged by KDB and MIB, which range from 12% to 20% for long-term loans, with an average rate close to 12% for Won loans. Although in the past KDFC has been under some pressure to lower its Won currency lending rate, KDFC's Board, while keeping the problem under frequent review, has maintained the rate of 20%. Although that rate is higher than those charged by other long-term lending institutions, it has not adversely affected KDFC's business.

32. KDFC's Board keeps the lending rates under constant review. From time to time the Board has a full-scale discussion of them, based on a carefully prepared staff paper, and takes into account such factors as the general levels of interest rates in Korea, the cost of capital, the profitability required to enable KDFC to raise new capital, inflation and rates charged by competitors. The Board has so far seen no justification for changing the Won lending rate of 20% p.a. In view of the care with which KDFC's Board keeps the lending rate under review, there is no reason to doubt that the rate fixed is appropriate.

33. With inflation at a rate of about 10% p.a., KDFC's financial structure was set up to give it a spread of 16% p.a. on the government loan, when its proceeds are invested. That spread has significantly helped KDFC to maintain its profitability at the level it will need to attract new share capital. The spread on foreign currency lending is 3.5% with the borrower bearing the exchange risk.

34. The high level of market interest rates in Korea is one of the factors inhibiting the demand for securities. Other factors are the even more attractive returns on such alternative investments as curb market placements, government bonds (32%) and real estate. KDB has offered bonds to the public to a total amount of W15 billion, at a nominal rate of 28% p.a., (with discount, the effective rate is 34-36% p.a.), but only W 4.4 billion was taken up by the general public. The balance was subscribed by government institutions. KDFC might usefully explore the possibility of guaranteeing the principal and interest on bond issues made by its industrial clients; but such

an operation would be facilitated if KDFC had first made a small issue of its own bonds (even at the cost of accepting a negative spread on the funds so raised) and thus established its name in the market. The difficulties in the way of a successful bond issue by either KDFC or a client should not be underrated, given the present state of the Korean capital market, but KDFC is giving thought to the possibilities.

35. Resource mobilization at project level. An analysis of 43 projects shows that KDFC's commitments to them of W5.8 billion formed part of total commitments for capital investment of W17.2 billion, the balance being financed by the sponsors of projects and from other sources. Thus, on average, KDFC has financed about one-third of total project cost. KDFC frequently requires its borrowers to increase their equity investment as a condition of lending.

36. Prospects for KDFC's mobilization efforts. KDFC will have to continue to rely heavily on the World Bank for the capital it needs to finance imports. The management has indicated, however, that it intends to diversify the sources of its financing to the best of its ability, and will seek loans from such sources as Kreditanstalt fur Wiederaufbau (KfW), the Asian Development Bank (ADB) and the Industrial Bank of Japan (IBJ); it has received approval from the government to make such efforts. As of December 31, 1970 KDFC's outstanding debt to the Bank (\$8.2 million) represented about 33% of total long-term capital employed (equity and outstanding long-term borrowing). That proportion would rise to about 58% at year-end 1971 and 61% at year-end 1972. The proportion of Bank funds might be reduced when KDFC obtained loans from other sources.

37. For domestic currency, KDFC's mobilization efforts will continue for the next few years to be through internal cash generation, the planned increases in its share capital (referred to in paragraph 30 above) and, perhaps, by ventures in underwriting. In addition, KDFC has taken the lead in an effort to mobilize domestic resources, although for the use of industry in general rather than for its own use, through the new financial institution referred to in the following paragraphs.

38. Proposal for a new financial institution. In the light of the shortcomings of the money and capital markets referred to in paragraphs 10 to 12 above (e.g. scarcity of equity capital and the inadequate supply of short-term funds at reasonable rates), KDFC sees a need for establishing a new institution which would stimulate money and capital market development.

39. At the invitation of the Government, an IFC mission visited Korea in November/December to review problems of money and capital market development and to advise in the establishment of the new institution. During the stay of the mission, detailed proposals for such an institution were prepared. These envisage the establishment of a privately-oriented institution which would serve primarily as a financial intermediary in both the money and capital markets. Such an institution could make a very useful contribution by developing a market for short-term commercial paper. It could also meet an urgent

need on the capital market side by helping private enterprises raise equity and other funds through effective underwriting arrangements, by creating a secondary market for the securities which it underwrites and by developing an effective distribution system. The proposed institution would be established together with Korean and foreign financial institutions, with KDFC owning around 25% of total equity.

40. The proposal for the new institution has the support of the Government. IFC is considering an investment in the new company's equity, a loan, and assistance in making arrangements with other foreign investors for additional equity and loan funds for the company. An IFC mission is now in Seoul working on the details of the proposal. The new company is expected to be established during the second half of 1971. By its active role as a proponent of the proposal, KDFC has given evidence of its intention to play an important part in mobilizing domestic capital resources, for the use of the industrial sector.

41. Technical contributions. KDFC is a member of the Consultative Organization for Underwriting of Securities, which was created in 1969 as a permanent body for consulting on the organization of underwriting for the sale of corporate and government securities. Other members are KDB, KIDC, the Korea Stockbrokers' Association and the five leading commercial banks. KDFC also participated in various extensive studies on the capital and money markets in Korea, intended to lead to measures to accelerate resource mobilization.

IV. INSTITUTIONAL DEVELOPMENTS AND CREDITWORTHINESS

Board, Management and Staff

42. KDFC is well led and well managed. Its Articles provide for a Board of 13 directors. The present Board consists of 9 Korean directors (including the President of KDFC), 3 directors representing the foreign shareholders, and one representing IFC. Mr. Y. L. Chang has represented IFC on KDFC's Board since inception of the company. The Chairman of the Board is Mr. C. S. Hong, a prominent industrialist who was formerly Chairman of the Federation of Korean Industries. An Executive Committee consisting of four directors including KDFC's President has been authorized by the Board to approve individual investments up to \$500,000 equivalent. KDFC's President continues to be Mr. C. H. Kim, a former Governor of the Bank of Korea. He is both familiar with the broad issues facing KDFC and knowledgeable about the details of KDFC's operations. He firmly manages KDFC's operations. His reputation and standing in Government circles and in the business community are very high. He is assisted by two Vice Presidents, one supervising directly the Investment Appraisal and the Planning and Research Departments, the other the Operations and Administration Departments. Together with the President, they form a strong management team. However, one of the two Vice Presidents is likely to leave soon to become head of the proposed new financial institution referred to in paragraph 40. The President is actively seeking a replacement of equal quality.

43. KDFC has had since its inception the services of an Advisor, Mr. C. L. Terrel, recommended by the Bank. He has made a valuable contribution to the company's internal organization, management decisions, staff training and especially project appraisals. His contract, renewed once on the initiative of KDFC, is due to expire in September 1971.

44. KDFC's professional staff, presently totalling 32 apart from management, is competent. A few members are outstanding. KDFC has been successful in attracting qualified personnel. To supplement its experienced senior staff, the company has followed a policy of recruiting promising young college graduates and giving them systematic on-the-job training. There are presently six such trainees who were expected to become professionals in March 1971. KDFC intends to expand its professional staff at a rate of 10-15% a year, a rate which it believes to be compatible with efficient absorption.

45. In official and business circles, KDFC enjoys a reputation for integrity in its dealings with clients. The management has established and enforces strict rules regarding the staff's relations with customers. The management's practice is to maintain staff remuneration at a level sufficient both to retain staff and to maintain high morale and ethics. The current scale of remuneration in force is about 10-20% higher than that of competing institutions, and is automatically adjusted for increases in the cost of living once a year. The morale of staff appears high and KDFC is confident it can avoid undue wastage. Staff stability is noticeable, with gradual expansion and almost no turnover.

Project Appraisal and Supervision

46. Project appraisal. KDFC's appraisals are of consistently high standard; the underlying investigation is thorough. In evaluating a project, KDFC applies financial criteria which, while appropriate, are considered by businessmen in Korea to be stringent. Economic criteria generally applied relate to the impact of the project on foreign exchange earnings or savings, the creation of new employment, the use of domestic raw materials, and technological benefits. Until recently, KDFC's appraisal reports have not paid sufficient attention to the analysis of the international competitiveness of projects, but after discussions with Bank staff this shortcoming has been remedied.

47. KDFC has four qualified engineers on its staff (as well as two economists, five market analysts and four financial analysts) who review the engineering aspects of projects with the help of two part-time advisors to KDFC, also qualified engineers. Through its part-time advisors, KDFC is able to tap the specialized expertise of the Korean Institute of Science and Technology, which includes in its membership prominent engineers and scientists. KDFC generally undertakes a detailed technical analysis of projects. When a project presents technical aspects with which the appraisal staff is not familiar, KDFC requires the applicant to engage independent qualified consultants. KDFC's appraisal reports now almost invariably cover all aspects of projects very adequately.

48. In various instances, KDFC has helped its clients modify and improve projects in the course of the appraisal process. Out of 55 projects approved to September 30, 1970, 15 had been modified at KDFC's suggestion. These modifications concern the financing plan for the project, management arrangements and technical aspects. KDFC's advice directly to its clients represents another aspect, although unquantifiable, of its assistance in economic development. Its adoption and maintenance of high standards of project evaluation also has an indirect effect; knowledge of the standards observed has spread among entrepreneurs, and has exercised a beneficial effect on the preparation of projects for submission to KDFC.

49. Loan supervision. Owing to the need to concentrate in the past on the processing of loan applications, and because of the newness of its portfolio, KDFC began only recently to pay close attention to loan supervision. The number of professional staff in the Operations Department (which is responsible for that work) has been increased recently from five to seven. Because the work of that Department is not restricted to loan supervision, however, but includes part of the appraisal process, further expansion of the staff is necessary. The Department does not yet have an engineer to participate in factory inspections. Systematic supervision procedures have yet to be fully established. The follow-up work, adequate while the portfolio was very small, must now be improved. The management intends to strengthen the Operations Department not only to improve loan supervision but also to make available the management consultancy services referred to in paragraph 28 above, until the new consultancy department is set up.

Financial Situation and Creditworthiness

50. KDFC's financial position is sound. Income statements and balance sheets are summarized in Annexes 11 and 12. Total assets increased by 24% in 1969 and by 55% during 1970. KDFC's term debt outstanding as of December 31, 1970 amounted to W4.9 billion of which about 41% consisted of the subordinated government loan. The Bank Loan Agreement (622-KO) limits KDFC's borrowings to a maximum of three times its equity plus that part of the Government subordinated loan not repayable before repayment of the Bank loan. The total long-term debt/equity ratio was 1.9:1 as of the same date, and on the basis of the Bank's formula was 0.65:1. Reserves and retained earnings increased from 40% of share capital in 1968 to 79% in 1969 and 85% as at December 31, 1970.

51. Largely because of the spread on the government loan funds, referred to in paragraph 33 above, KDFC's profitability has been relatively high. Net profits increased from W436 million in 1968 to W519 million in 1969, and W604 million in 1970. The 1970 results represented a return of 40.7% on share capital and 21.1% on year-end net worth. These rates of return, although prima facie high, are diminished in real terms by persistent inflation; nor are they high in relation to expected returns in Korea on alternative investments. While until 1969 KDFC's income derived mainly from interest income on its deposit funds, 53% of the income for 1970 derived from the investment portfolio. From the 1969 and 1970 profits, KDFC has declared

each year a 20% dividend (10% stock and 10% cash) and envisages the same pattern for the next few years. KDFC's financial position and prospects are sound, and KDFC is a creditworthy institution.

Quality of Portfolio

52. KDFC's portfolio is too recently acquired to support detailed comments on the repayment record of KDFC's clients. Few repayments have yet become due. Only one loan has been rescheduled. The client (a fluorescent lamp manufacturer) met financial difficulties arising from high-cost borrowings in the curb market. That problem is in process of solution. Of the 55 projects financed, about one-half are still in construction. KDFC's outstanding portfolio at December 31, 1970 was W 5.7 billion or about 55% of total commitments as of the same date. KDFC's loans generally are comfortably secured by first mortgages on the new assets and on other existing assets; in some cases the company also requires the personal guarantee of the promoters or principal owners. Given KDFC's careful selection of projects and high appraisal standards, and the collateral security obtained, there is no reason to doubt that KDFC's portfolio is sound. The appraisal mission to KDFC in October 1970 visited a number of KDFC's projects and judged them to be good. Even the two problem projects appeared to have good prospects of recovery.

Relations with Government and Industry

53. KDFC remains under criticism in some business quarters for slowness in taking investment decisions and for setting its project standards too high. KDFC presently takes on the average from two to three months to process a loan application, which is not slow considering the thoroughness with which the appraisal is made. Its appraisal standards are high, but it would be detrimental to its own interests and to those of Korea if it were to lower them. Rather, it should follow its chosen course of seeking consistently to raise them. Despite some criticism, KDFC appears to have gained the confidence and respect of both Government and industry.

54. KDFC's success is partly attributable to the Government's understanding of KDFC's problems, support for its activities, and abstention from interference in its operations. KDFC operates within the framework of Government policies and guidelines regarding industrial development and finance, but otherwise is free to set its own operational policies. Apparently no loan or investment decision has been made under the pressure of Government. Another indication of KDFC's independence is that although the Government has at least once expressed a desire to see KDFC lower its domestic currency lending rate and relax its project standards, KDFC has decided to maintain both. KDFC is in close touch with all government agencies related to industrial finance such as the Economic Planning Board, the Ministry of Finance and the Bank of Korea, especially regarding the scheme KDFC currently has under study for establishing a new financing institution. KDFC's management briefs the President of the Republic once a year, and thus is given the opportunity both to present KDFC's achievements and problems and to hear the Government's views at the highest level. The Government recognizes KDFC's importance and value, present and perspective, as a development institution with high standards of integrity, as a channel for attracting capital from the World Bank and other lenders, and as a potential mobilizer of domestic resources.

V. KDFC's PROSPECTS

Prospects for Korean Industry

55. KDFC's future development is naturally linked to the Korean economy, especially the manufacturing sector. As stated earlier in this report, the Korean economy has recently experienced phenomenal growth, with manufacturing industry playing the leading role. There is little doubt that economic growth will be slower in the next few years. The growth of manufacturing output is expected to slow down from a rate of 22% annually during the past five years to about 15% during the next five years, partly because the base now is much larger. Exports of manufacturing products may grow at perhaps 18% annually during the period 1971-1976, compared with the 37% average annual growth of recent years. The probable slow-down of export growth is due to rapidly increasing domestic demand and expected resistance to further expansion in export markets abroad, particularly in the U.S., which buys one-half of Korea's exports, and in Japan, which buys 20%. The Third Plan for 1972-1976, recently drafted, sets up an export target of \$3.5 billion in 1976, of which more than 80% in manufactured goods. This assumes an annual growth rate of exports slightly above 20%. The gradual shift of manufacturing industry toward intermediate and capital goods production (with emphasis on shipbuilding, heavy machinery and steel) is likely to continue with the implementation of the Third Plan.

KDFC's Business Forecast

56. A forecast of approvals, commitments and disbursements from 1970 through 1975 is given in Annex 13. In projecting its future lending operations KDFC has taken into account the likely changes in the pattern of Korean manufacturing industry. The tentative lending program for the next two years places emphasis on sectors producing capital and intermediate goods. Increased lending is likely to enterprises producing chemical and petrochemical, glass and stone, metal, machinery, electrical and electronic products, while the proportion of lending to the textile industry falls.

57. Despite the probable slowdown in the growth rate of the Korean economy, the expected levels of investment in the industrial sector should maintain demand for long-term financing at a high level throughout the period 1971-1976. In particular, if the Government maintains, as expected, tight control over the inflow of foreign loans, KDFC is likely to benefit, and its business prospects remain good. The future volume of the company's business will continue to be largely a function of the availability of resources. KDFC's projections for the period 1971-1975 show only a modest increase in total annual approvals of loans and equity investments from the 1970 level of about \$22.1 million equivalent to \$29.1 million in 1975. This represents, for the five-year period, a growth rate in annual approvals of about 6%, which is small in comparison with the expected annual increase in manufacturing investment in Korea. KDFC's projections of operations, which were conditioned by

KDFC's assessment of resources likely to be available, appear to be deliberately conservative. KDFC may well exceed the forecasts, if its efforts to raise additional capital from sources other than the Bank are successful.

58. Won financing in relation to total financing for the projected period will remain at a level of about 27%, as in the past. Equity investments (not including convertible debentures) are expected to increase from the present annual level of about W150 million to W550 million in 1975, representing about 7% of total financing. KDFC has indicated it will try to make as much as possible of its Won lending in the form of convertible debentures, although this category of loans has not been distinguished in the projections. In the past, equity investments and convertible debentures have accounted for 11% of total financing and 40% of Won financing by KDFC; these proportions are likely to increase in the future.

Resource Requirements

59. Local currency sources. KDFC's total commitments of domestic currency from 1971 through 1975 are projected at W11,077 million. Its Won resources at December 31, 1970 amounted to W4.8 billion (including the Government loan of W2 billion), of which the uncommitted balance was W1,914 million ^{1/}, enough to cover KDFC's Won requirements up to the end of 1972. Won resources for 1972-1975 are expected to come from repayments, retained earnings and the two successive share capital increases which KDFC plans for 1972 and 1973. The projected sources for Won funds through 1975 are as follows:

		<u>%</u>
Uncommitted Won resources at December 31, 1970	W 1,914 million ^{1/}	16.2
Capital increase (1972)	903 "	7.7
Capital increase (1973)	675 "	5.8
Won loan collections (1971-1975)	4,548 "	38.8
Retained earnings (1971-1975)	<u>3,694</u> "	<u>31.5</u>
	<u>W11,734</u> million	<u>100.0</u>

On the basis of KDFC's forecasts, it is unlikely to need additional Won resources before the end of 1972. It was, however, impressed upon KDFC that it should raise substantial additional share capital as soon as possible, in order to enable it to increase the size of its operations, in view of the increasing average size of enterprises in Korea, and to permit it to become more active in equity financing and underwriting. Moreover KDFC's shareholders are the beneficiaries of relatively cheap funds supplied by the Government and the Bank. This view has been pressed on KDFC over a period, and in the course of negotiations of the proposed loan KDFC gave assurances on its plans for raising additional equity capital from its shareholders in the amounts of W903 million in the first half of 1972 and W675 million in 1973, referred to above. If the issue proposed for the first half of 1972 is successful, KDFC will have doubled its initial paid-in share capital within the space of five years.

^{1/} After deducting cash dividend (W149 million) for 1970.

60. Foreign currency sources. Commitments of foreign exchange for 1971 and 1972 are projected at \$41.5 million. KDFC's total foreign exchange resources, \$28 million as at December 31, 1970, are expected to be fully committed around June 1971. The foreign exchange resource gap over the next two years is therefore about \$40 million. Of that amount the \$5 million loan from Caterpillar Far East Ltd. became effective early in 1971, although its usefulness will be limited by its restrictive terms. The Bank has emphasized to KDFC the desirability of diversifying the sources of its foreign exchange funds and of reducing the Bank's proportionate exposure in KDFC, and in the course of negotiations received confirmation that KDFC will approach KfW of Germany and the Industrial Bank of Japan in April 1971, with a view to exploring the possibility of loans. KDFC is also considering approaching the ADB at a later date. The prospects for KDFC's obtaining loans from one or more of these institutions are good. Meanwhile, a Bank loan of \$30 million is proposed, which will make a substantial contribution to KDFC's capital requirements for the next two years while not relieving it of the need to seek other sources of funds. A schedule of estimated disbursements of the proposed loan is given in Annex 14.

Projected Financial Results

61. Projected balance sheets through 1975 are shown in Annex 15. On the basis of the forecast volume of business, KDFC's total assets would increase from about W8,018 million at the end of 1970 to W37,329 million at the end of 1975. The loan and equity portfolio is estimated to increase from W5,662 million in 1970 to W33,660 million in 1975, and total long-term outstanding debt is expected to grow from W4,925 million in 1970 to W28,306 million in 1975. The ratio of total long-term debt (including the government subordinated loan) to equity is projected to increase from 1.9:1 in 1970 to 3.5:1 in 1975. The debt/equity ratio as defined in the Bank Loan Agreement will rise from 0.65:1 in 1970 to 2.77:1 in 1975. The contractual limit is 3:1.

62. Projected income statements for the period 1970-1975 are given in Annex 16. KDFC's profits after tax are expected to grow from W604 million in 1970 to W1,447 million in 1975, while the rate of return on average net worth will range between 19.1% and 21.4% during the same period. KDFC receives a spread of 16% on the government loan and 3% on its second Bank loan. In the projections, KDFC has assumed that the existing lending rate on foreign exchange subloans will not be changed but that the lending rates on Won loans will decrease gradually to 15% in 1974. This assumption does not reflect an intention to lower KDFC's rate; it is, rather, a conservative assumption made in the light of the Government's wish to influence interest rates downward. Administrative costs are forecast to increase at an average rate of 25% per annum, but in relation to average total assets will decrease from 2.9% in 1970 to 1.3% in 1975. A provision for doubtful loans and investments is included, calculated at 2% of the increment in the outstanding portfolio at the end of each year. Dividends on KDFC's ordinary shares are assumed to remain constant at 20% (half in cash and half in shares) and dividends on preferred shares (to be issued in 1973) are forecast at 15% in 1974 and 1975. The pay-out ratio would be about 26% in 1970 and 31% in 1975. On

the basis of the projected dividend policy, and taking into account the proposed two issues, the book value of KDFC's shares will stabilize between 193% of par value at the end of 1970 and 190% in 1975 on the basis of the increased share capital.

63. Projected cash flow statements for the years 1970-1975 are given in Annex 17. These and the forecast income statements indicate an adequate debt service cover during the projected period. Annual interest payments throughout the period range from 28% to 52% of KDFC's annual profits before financial expenses. Principal repayments by KDFC range from 34% to 68% of annual collections. The overall debt service cover will be 3.9 times in 1970, 2.1 times in 1972, 1.6 times in 1975 and is expected not to fall below 1.5 times for the life of the loan. Principal repayments by KDFC in respect of the government loan will start from 1979. A tabulation of financial forecasts appears in Annex 18.

VI. CONCLUSIONS AND RECOMMENDATIONS

64. KDFC's contribution to total investment in the private sector is quantitatively still small, but it has been growing and is expected to continue to do so. Qualitatively, KDFC is playing an increasingly important role in channeling long-term finance to economically sound investments. KDFC's project appraisal work is of a high standard and has already had a significant educational impact. Its follow-up work, while appropriate for a small portfolio, now needs improvement and is receiving increasing attention from the management.

65. KDFC's record of domestic resource mobilization to date has not been significant, since it began operations only in 1968. KDFC has given evidence, however, of a firm intention to take an important part in mobilizing resources for industrial investment by sponsoring a new financial intermediary to operate both in the short-term money market and the securities market.

66. KDFC's performance to date has been very satisfactory. In less than three years it has succeeded in building up an efficient organization, a competent staff and a sound portfolio. KDFC is now preparing to broaden its activities into the fields of project promotion, underwriting, technical assistance and consultancy services.

67. KDFC's prospects look good. Despite being lower than those of recent years, planned rates of manufacturing investment and growth are still relatively high and the company should have no difficulty in attaining the forecast volume of business. Its profitability should remain high and its financial position sound. The company is likely to be able to raise additional equity as needed to finance its expansion. Its plans for increasing share capital in early 1972 and in 1973 appear adequate.

68. The Bank remains the most important source of funds for KDFC. The company however is seeking to diversify its foreign exchange resources. KDFC remains a creditworthy and suitable recipient for the proposed third loan. The only other uncommitted foreign exchange loan presently available is that of \$5 million from Caterpillar Far East Ltd. In the two year period to the end of December 1972, KDFC will need about \$41 million in foreign exchange to cover its projected commitments for financing imports. It is recommended that the Bank make KDFC a third loan of US\$30 million.

69. Under the second Bank Loan Agreement, the free limit was US\$300,000. Of the 22 projects totalling US\$12.6 million credited to the loan account as of October 31, 1970, 15 projects amounting to US\$11.1 million or 88% of the total amount have been reviewed by the Bank. In view of the competence of KDFC's management and staff, and of the high quality of appraisal work, an increase in the free limit is justified. On the basis of the projects being processed by KDFC, it is estimated that, with a free limit of US\$500,000, about three-quarters (by amount) of the loans using Bank funds would go to projects requiring prior approval by the Bank. It is recommended, therefore, that the free limit be raised to US\$500,000 equivalent, with a limit on the aggregate amount to be used for projects below the free limit equivalent to 25% of the proposed loan (US\$7.5 million). It is also proposed that the contractual limit on the debt/equity ratio be retained at 3. The other terms of the loan should be those normally applied to development finance companies, including the standard commitment charge.

KOREA DEVELOPMENT FINANCE CORPORATION

List of Shareholders as of December 31, 1970

	<u>No. of shares</u>	<u>Percentage of paid-up capital</u>	<u>No. of share- holders</u>
<u>I. Private corporations and individuals</u>			
Ssangyong Cement Industrial Co. Ltd.	7,122		
Hankook Glass Industry Co., Ltd.	7,120		
Lucky Chemical Co., Ltd.	7,120		
Jae Ho Chung	7,120		
PangRim Spinning Co., Ltd.	5,500		
Tongyang Cement Manufacturing Co., Ltd.	5,244		
Korea Nylon Co., Ltd.	4,400		
Hyun Dai Construction Co., Ltd.	4,400		
Hong Jai Cho	3,933		
Chonbang Co., Ltd.	3,711		
Young Poong Trading Co., Ltd.	2,970		
Korea Cement Manufacturing Co., Ltd.	2,622		
Korea Explosives Co., Ltd.	2,200		
Taesung Lumber Industrial Co., Ltd.	1,320		
Chosun Silk Textile Co., Ltd.	1,320		
Jedong Industrial Co., Ltd.	1,311		
Duck Kyun Shin	1,311		
Sam Yang Co., Ltd.	1,302		
Kyungbang, Ltd.	1,214		
Chai Sun Hong	1,210		
Inchon Ironworks Co., Ltd.	1,188		
Hanil Synthetic Fiber Co., Ltd.	1,188		
Chin Hyung Kim	1,102		
Ilssin Industrial Co., Ltd.	1,100		
Il Shin Industrial Co., Ltd.	1,100		
Kyung Dong Sull	1,100		
161 shareholders holding less than 1,000 shares each	13,689		
	<u>92,917</u>	31.3%	187
<u>II. Commercial banks</u>			
The Cho Heung Bank	10,120		
The Commercial Bank of Korea	10,120		
The First City Bank of Korea	10,120		
The Hanil Bank	10,120		
The Bank of Seoul	3,520		
	<u>44,000</u>	14.8%	5

	<u>No. of shares</u>	<u>Percentage of paid-up capital</u>	<u>No. of share- holders</u>
III. <u>Insurance companies</u>			
Korean Reinsurance Corporation	11,000		
Dae Han Life Insurance Co., Ltd.	2,640		
Dong Bang Life Insurance Co., Ltd.	2,640		
Dae Han Educational Insurance Co., Ltd.	2,640		
Dong Yang Fire & Marine Insurance Co. Ltd.	2,310		
Shin Dong-A Fire & Marine Insurance Co., Ltd.	2,310		
Dae Han Fire & Marine Insurance Co., Ltd.	2,310		
The Kukje Fire & Marine Insurance Co., Ltd.	2,310		
The Koryo Fire & Marine Insurance Co., Ltd.	2,310		
Haedong Fire & Marine Insurance Co., Ltd.	2,310		
The Ankuk Fire & Marine Insurance Co., Ltd.	2,310		
The Eastern Marine & Fire Insurance Co., Ltd.	2,310		
Pan Korea Insurance Co., Ltd.	2,310		
The First Fire & Marine Insurance Co., Ltd.	2,123		
The First Life Insurance Co., Ltd.	660		
Heung Kuk Life Insurance Co., Ltd.	660		
Koryo Life Insurance Co., Ltd.	330		
	<u>43,483</u>	14.6%	17
IV. <u>Foreign shareholders</u>			
Bank of America	10,395		
First National City Overseas Investment Corporation	10,395		
The Industrial Bank of Japan, Ltd.	9,207		
The Bank of Tokyo, Ltd.	9,207		
United California Bank International	8,316		
Irving International Financing Corporation	7,425		
Deutsche Bank A. G.	7,425		
The Chartered Bank	5,940		
Banca Commerciale Italiana, Holding S.A.	5,940		
	<u>74,250</u>	25.0%	9
International Finance Corporation	42,350	14.3%	1
	<u>116,600</u>	39.3%	<u>10</u>
 Total	 <u>297,000</u>	 <u>100.0%</u>	 <u>219</u>

KOREA DEVELOPMENT FINANCE CORPORATIONBoard of Directors

(Elected at the Shareholders Meeting held on February 27, 1971)

<u>Name</u>	<u>Principal Interest</u>
<u>Representing Korean shareholders</u>	
Mr. Chai Sun Hong *	Chairman, Korea Development Finance Corporation
Mr. Chin Hyung Kim *	Representative Director-President, Korea Development Finance Corporation
Mr. Yong Wan Kim	President, Kyungbang, Ltd.
Mr. Tai Sup Choi	President, Hankook Glass Industry Co., Ltd.
Mr. Jae Ho Chung	Chairman, Samho Textile Co., Ltd.
Mr. Young Hui Kim	Governor, Korea Development Bank
Mr. Cha Kyung Koo	Chairman, Lucky Chemical Co., Ltd.
Mr. Ro Sung Park *	President, First City Bank of Korea
Mr. Young Ki Sohn	President, Ahnkuk Fire and Marine Insurance Company
<u>Representing foreign shareholders</u>	
Mr. Tor D. Folkedal *	Manager, First National City Bank, Seoul, Branch
Mr. H. H. Liller	Manager, The Chartered Bank, Seoul, Branch
Mr. Yoshito Katsuki	Managing Director, The Industrial Bank of Japan
<u>Representing IFC</u>	
Mr. Y. L. Chang	Senior Advisor, Treasurers Dept., IBRD
<u>Auditors</u>	
Mr. Yong Joo Kim	Chairman, Chonbang Co., Ltd.
Mr. Sang Young Kim	Vice President, Federation of Korean Industries
Mr. Bong Jai Kim	Chairman, Medium Industry Cooperatives Federation

* Also Executive Committee members

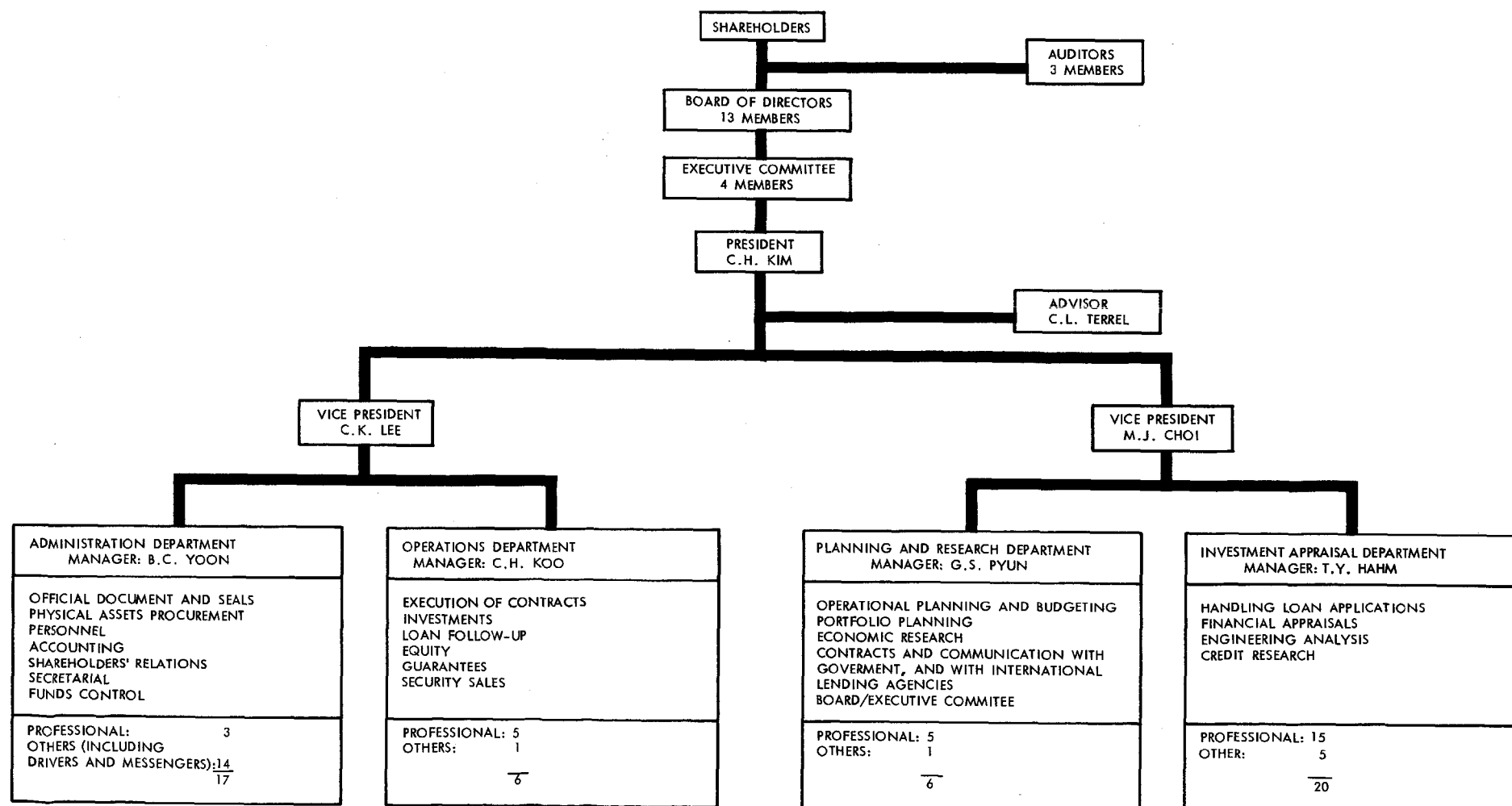
IBRD/DFC

March 31, 1971

KOREA DEVELOPMENT FINANCE CORPORATION

(ORGANIZATION CHART)

(AS OF SEPTEMBER 30, 1970)



KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Policy

(Adopted by the Board of Directors on April 25, 1967
and amended on February 29, 1968)

The Korea Development Finance Corporation, whose object is to promote the expansion of private enterprise in the Republic of Korea, will be guided by the policies set forth below:

I. The Scope of Investment Activities

- 1) KDFC will invest only in productive enterprises. While its primary activity will be manufacturing and processing industry, it may invest also in other types of enterprises, including transport, tourism, and large-scale commercially oriented agriculture. However, trade, real estate and small-scale agriculture will be excluded.
- 2) KDFC will finance only private enterprises which are properly organized and managed. KDFC will not invest in undertakings which are Government-owned and operated, but a Government holding of not more than 15% of the voting stock of a private enterprise shall not make such enterprise ineligible for financial assistance from KDFC. KDFC will finance both new enterprises and existing ones for expansion or improvement.
- 3) In its operations, KDFC will give due regard to the Government's general economic plans and policies. The following categories of industries will receive high priority, in accordance with the Government economic policies and objectives:
 - a) export industries;
 - b) import-substitute industries;
 - c) industries producing raw materials necessary for production of export commodities and import-substitutes;
 - d) indigenous local industries which have special advantage in comparative costs and potential marketability in foreign markets;
 - e) participation or assistance in the turn-over of the Government-owned industries to private ownership.
- 4) KDFC will assist private enterprises in the following ways:
 - a) medium and long-term loans;

- b) equity participation (through underwriting, conversion rights, direct participation in share capital or otherwise);
 - c) guarantee of payment for machinery and equipment imported or otherwise;
 - d) guarantee and underwriting of corporate securities;
 - e) technical and managerial consultant services; and
 - f) any other appropriate manner.
- 5) KDFC will seek through its operation, to broaden the ownership of private securities in Korea.
 - 6) KDFC's financial assistance will be primarily for expenditures for fixed assets. KDFC will, however, consider requests for permanent working capital in conjunction with its financial assistance for such capital expenditures.
 - 7) KDFC will study periodically the trend of over-all industrial development and investment opportunities in the private sector in cooperation with research institutes for promotion of new enterprises or expansion of the existing ones.

II. Basis for Investment Decisions

- 8) KDFC will make investment decisions only on the basis of sound investment criteria and standards, and will provide financial assistance only to those projects which are financially and economically sound and technically feasible. Special attention will be given to the ability of management and the profitability of the enterprise.

III. Diversification of Portfolio

- 9) KDFC will diversify its portfolio in order to maintain a reasonable level of risk.
- 10) KDFC will not provide financial assistance of less than the Won equivalent of \$50,000. The maximum financial commitment in whatever form, including loan, share capital or guarantee or any combination thereof, that KDFC may make to any single enterprise will not exceed 15% of the total of KDFC's paid-in capital, free reserves and Government loan of 1968.

- 11) KDFC will not commit to any single enterprise in form of share capital more than 10% of KDFC's paid-in capital and free reserves. The aggregate equity investment of KDFC at any time will not exceed the total of its paid-in share capital and free reserves.
- 12) In undertaking large-size projects, KDFC will seek cooperation with other financial institutions, both domestic and foreign.

IV. Turn-over of Portfolio

- 13) In order to recover its resources for new commitments and to encourage widespread ownership of private securities, KDFC will revolve its portfolio whenever it can do so on satisfactory terms. In selling an investment it will pay due regard not only to its own interests but also to the interests of other participants in such investment, as also to the interest of the concern whose shares are involved.

V. Relationship with Enterprises Financed

- 14) KDFC will not take a controlling interest in any enterprise in which it has invested, or any other interest which would give it primary responsibility for management, except that in the case of jeopardy, it may take such action as may be necessary to protect its interest. To this end it will not take up more than 25% of the share capital of an enterprise, except as the result of an underwriting commitment undertaken in the expectation that the investment would in fact be within the limit cited.
- 15) In accordance with normal banking practice, KDFC will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with sound accounting practices, and to furnish whatever information on their operations and accounts KDFC deems desirable. KDFC will take the right to inspect the enterprises it finances as well as their operations and accounts.
- 16) Business secrets and other information furnished by applicants or clients will be treated as confidential.

VI. Financial Guide-Lines

- 17) KDFC will lend and invest its resources in such a way as to maintain the value of its capital. KDFC will pass to its clients any foreign exchange risk it assumes or find other suitable means to cover it.

- 18) KDFC will not incur any debt (not including as debt the loan made by Korean Government in 1968) in excess of three times the aggregate of its paid-in capital, free reserves and the 1968 Government loan outstanding.
- 19) KDFC will maintain accounting records adequate to reflect its business operations in accordance with sound and generally accepted international accounting practices and standards. KDFC will employ qualified and independent public accountants to audit its books and certify the accounts annually.

VII. Profits and Their Distribution

- 20) KDFC will seek to develop earnings sufficient to cover expenses and taxes, to provide reserves adequate to the size and risks of its portfolio and to protect its equity against erosion and to pay satisfactory dividends. It will seek profits on its equity investments and will impose interest rates, fees and other charges for its loans and services which will permit it to achieve that level of profitability. It will build and maintain reserves consistent with sound financial management. It will set aside each year from net income before tax the amount required by law as the legal reserve. In addition, it will accumulate other reserves, including reserve for losses, as considered prudent by the Board of Directors.

VIII. Staff

- 21) KDFC will build up a technically qualified staff capable of carrying the responsibilities which KDFC's objectives create, and able to provide the services to clients which those objectives call for.

IX. Revision of Policies

- 22) Any proposal to revise this Statement of Investment and Operational Policies shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal, and it shall be approved at a meeting of the Board of Directors by two-thirds of all directors.

KOREA DEVELOPMENT FINANCE CORPORATIONResources as of December 31, 1970

<u>Won Currency Resources</u> (W million)	<u>Amount</u>	<u>Loans/Investments</u> <u>Approved</u>	<u>Committed</u>	<u>Uncommitted</u>
Share capital	1,485			
Surplus <u>1/</u>	1,247			
Equity	2,732			
Government loan	2,025			
Total	<u>4,757</u>	<u>3,082</u>	<u>2,843</u>	<u>1,914</u>
<u>Foreign Currency Resources</u> (\$'000)				
AID loan	3,000	2,106	2,106	894
1st IBRD loan (529-KO)	5,000	5,000	4,938	62
2nd IBRD loan (622-KO)	<u>20,000</u>	<u>19,324</u>	<u>16,819</u>	<u>3,181</u>
Total	<u>28,000</u>	<u>26,430</u>	<u>23,863</u>	<u>4,137</u>
<u>Total</u>				
In W equivalent (million)	<u>13,577</u>	<u>11,526</u>	<u>10,472</u>	<u>3,104</u>
In \$ equivalent ('000)	<u>43,097</u>	<u>36,214</u>	<u>32,888</u>	<u>10,209</u>

1/ after deducting 1970 cash dividend (W 149 million)

IBRD/DFC
March 31, 1971

KOREA DEVELOPMENT FINANCE CORPORATIONSummary of Approvals, Commitments and Disbursements, 1968 - 1970

(Local currency in W million and foreign currency in \$'000)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>Total</u>
<u>Approvals</u>				
Local currency loans	320	575	920	1,815
Local currency equity investments <u>1/</u>	260	638	369	1,267
Foreign currency loans	<u>2,128</u>	<u>7,533</u>	<u>16,943</u>	<u>26,604</u>
Total approvals (W million) <u>2/</u>	<u>1,176</u>	<u>3,512</u>	<u>6,667</u>	<u>11,355</u>
<u>Commitments</u>				
Local currency				
Loans	270	595	711	1,576
Equity investments <u>1/</u>	260	638	369	1,267
Total local currency commitment	<u>530</u>	<u>1,233</u>	<u>1,080</u>	<u>2,843</u>
Foreign currency loans	<u>461</u>	<u>8,106</u>	<u>15,465</u>	<u>24,032</u>
Total commitments (W million) <u>2/</u>	<u>659</u>	<u>3,697</u>	<u>5,989</u>	<u>10,345</u>
<u>Disbursements</u>				
Local currency				
Loans	40	725	830	1,595
Equity investments <u>1/</u>	260	638	230	1,128
Total local currency disbursements	<u>300</u>	<u>1,363</u>	<u>1,060</u>	<u>2,723</u>
Foreign currency loans	<u>-</u>	<u>2,275</u>	<u>7,303</u>	<u>9,578</u>
Total disbursements (W million) <u>2/</u>	<u>300</u>	<u>2,057</u>	<u>3,378</u>	<u>5,735</u>

1/ includes convertible debentures

2/ exchange rate applied: \$1 = W280 for 1968
 \$1 = W305.2 for 1969
 \$1 = W311.5 for 1970

IBRD/DFC
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KOREA DEVELOPMENT FINANCE CORPORATION

Gross Loan Approvals by Industry,
1968-1969 and January-September 1970
(Unit: W million)

Industrial Category	1968			1969			September 1970			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
Mining	1	200	15.9	2	391	10.8	1	100	2.1	4	691	7.1
Food and beverage	1	61	4.8	1	85	2.4	2	352	7.3	4	498	5.1
Textile and garments												
Spinning and weaving	3	443	35.1	1	131	3.6	6	1,416	29.5	10	1,990	20.6
Raw silk	2	182	14.4	-	-	-	1	50	1.0	3	232	2.4
Garments and others	-	-	-	2	284	7.9	1	422	8.8	3	706	7.3
Wood products	-	-	-	1	136	3.8	-	-	-	1	136	1.4
Paper & paper products	-	-	-	1	250	6.9	-	-	-	1	250	2.6
Rubber products	-	-	-	1	527	14.6	1	137	2.9	2	664	6.9
Chemical & petrochemical products	-	-	-	1	158	4.4	2	158	3.3	3	316	3.3
Clay, glass & stone products												
Cement	-	-	-	-	-	-	1	319	6.6	1	319	3.3
Glass	1	156	12.4	2	478	13.2	1	248	5.3	4	882	9.1
Basic metals	-	-	-	-	-	-	1	572	11.9	1	572	5.9
Metal products	2	116	9.2	3	546	15.1	2	252	5.3	7	914	9.5
Machinery	-	-	-	-	-	-	1	92	1.9	1	92	1.0
Electric equipment & appliances	1	103	8.2	4	335	9.3	-	-	-	5	438	4.5
Services	-	-	-	1	105	2.9	1	630	13.1	2	735	7.6
Other	-	-	-	2	185	5.1	1	50	1.0	3	235	2.4
Total	11	1,261	100.0	22	3,611	100.0	22	4,798	100.0	55	9,670	100.0

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KOREA DEVELOPMENT FINANCE CORPORATION

Gross Loan Approvals by Size, Geographical Sectors,
New Versus Existing Projects,
1968-1969 and January-September 1970
 (Unit: W million)

	1968			1969			September 1970			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<u>Size of Loans</u>												
Below 15	-	-	-	-	-	-	-	-	-	-	-	-
15- 30	-	-	-	-	-	-	1	20	0.4	1	20	0.2
30- 90	3	180	14.3	5	363	9.8	4	233	5.0	12	776	8.0
90-150	6	725	57.5	7	857	23.1	3	340	7.2	16	1,922	19.9
Above 150	2	356	28.2	10	2,391	67.1	14	4,205	87.4	26	6,952	71.9
Total	<u>11</u>	<u>1,261</u>	<u>100.0</u>	<u>22</u>	<u>3,611</u>	<u>100.0</u>	<u>22</u>	<u>4,798</u>	<u>100.0</u>	<u>55</u>	<u>9,670</u>	<u>100.0</u>
<u>Geographical Sectors</u>												
Seoul area	3	355	28.2	6	1,045	28.9	8	1,940	40.4	17	3,340	34.5
Pusan area	1	148	11.7	3	346	9.6	1	300	6.3	5	794	8.2
Kyungki-Do	3	235	18.7	8	1,339	37.1	4	262	5.5	15	1,836	19.0
Kyungsangnam-Do	1	61	4.8	-	-	-	2	839	17.5	3	900	9.3
Kyungsangbuk-Do	2	342	27.1	3	522	14.5	6	1,221	25.4	11	2,085	21.6
Chunnam-Do	1	120	9.5	-	-	-	1	236	4.9	2	356	3.7
Chunbuk-Do	-	-	-	2	359	9.9	-	-	-	2	359	3.7
Total	<u>11</u>	<u>1,261</u>	<u>100.0</u>	<u>22</u>	<u>3,611</u>	<u>100.0</u>	<u>22</u>	<u>4,798</u>	<u>100.0</u>	<u>55</u>	<u>9,670</u>	<u>100.0</u>
<u>New versus Existing Projects</u>												
New	1	143	11.3	7	745	20.6	3	363	7.6	11	1,251	12.9
Existing	<u>10</u>	<u>1,118</u>	<u>88.7</u>	<u>15</u>	<u>2,866</u>	<u>79.4</u>	<u>19</u>	<u>4,435</u>	<u>92.4</u>	<u>44</u>	<u>8,419</u>	<u>87.1</u>
Total	<u>11</u>	<u>1,261</u>	<u>100.0</u>	<u>22</u>	<u>3,611</u>	<u>100.0</u>	<u>22</u>	<u>4,798</u>	<u>100.0</u>	<u>55</u>	<u>9,670</u>	<u>100.0</u>

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KOREA DEVELOPMENT FINANCE CORPORATION

Gross Loan Approvals by Local Currency Versus Foreign Exchanges,
Fixed Capital Versus Working Capital,
1968-1969 and January-September 1970
 (Unit: W million)

	1968			1969			September 1970			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<u>Type of loans</u>												
Local currency	7	588	46.6	18	1,205	41.1	16	890	16.2	41	2,683	27.7
Foreign currency	7	673	53.4	12	1,726	58.9	9	4,588	83.8	28	6,987	72.3
Total	<u>14</u>	<u>1,261</u>	<u>100.0</u>	<u>30</u>	<u>2,931</u>	<u>100.0</u>	<u>25</u>	<u>5,478</u>	<u>100.0</u>	<u>69</u> 1/	<u>9,670</u>	<u>100.0</u>
<u>Working versus Fixed Capital</u>												
Working capital	-	-	-	3	383	13.1	4	410	7.5	7	793	8.2
Fixed capital	<u>11</u>	<u>1,261</u>	<u>100.0</u>	<u>19</u>	<u>2,548</u>	<u>86.9</u>	<u>18</u>	<u>5,068</u>	<u>92.5</u>	<u>48</u>	<u>8,877</u>	<u>91.8</u>
Total	<u>11</u>	<u>1,261</u>	<u>100.0</u>	<u>22</u>	<u>2,931</u>	<u>100.0</u>	<u>22</u>	<u>5,478</u>	<u>100.0</u>	<u>55</u>	<u>9,670</u>	<u>100.0</u>

1/ Total number of projects is 55, of which 14 projects involved both local currency and foreign exchange financing, which resulted in total number of 69 in this classification.

KOREA DEVELOPMENT FINANCE CORPORATION

Approvals of Equity Investments and Convertible Debentures, 1968 - 1970
(Unit: W million)

	<u>1968</u>		<u>1969</u>		<u>1970</u>		<u>Total</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Equity Investments	1	148	1	80	2	139	4	367
Convertible Debentures	<u>1</u>	<u>120</u>	<u>2</u>	<u>550</u>	<u>3</u>	<u>230</u>	<u>6</u>	<u>900</u>
Total	<u>2</u>	<u>268</u>	<u>3</u>	<u>730</u>	<u>5</u>	<u>369</u>	<u>10</u>	<u>1,267</u>

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KOREA DEVELOPMENT FINANCE CORPORATION
Audited Income Statements, 1968 - 1970
(in W million)

<u>As of December 31</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Interest and commitment income:			
Loans	3.5	135.1	566.5
Time and demand deposits	433.5	554.6	512.9
Special deposit	183.4	115.7	-
	<u>620.4</u>	<u>805.4</u>	<u>1,079.4</u>
Dividends and other income	1.0	6.7	19.7
	<u>621.4</u>	<u>812.1</u>	<u>1,099.1</u>
Less interest and commitment expense	76.9	117.9	234.7
	<u>544.5</u>	<u>694.2</u>	<u>864.4</u>
General and administrative expense	108.6	174.8	197.8
Provisions for doubtful loans and investments			<u>63.0</u>
Net Income	<u>435.9</u>	<u>519.4</u>	<u>603.6</u>

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KOREA DEVELOPMENT FINANCE CORPORATION

Audited Balance Sheets 1968 - 1970
(in million)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
<u>ASSETS</u>			
Current Assets:			
Cash in banks	10.4	14.6	15.5
Demand deposits, interest bearing	147.0	57.0	21.0
Special deposit with the KDB	1,655.0	340.0	-
Time deposits with banks, due within one year	1,727.1	2,220.2	1,846.6
Accrued interest receivable	20.4	91.5	189.7
Other current assets	0.2	5.5	28.4
Total current assets	<u>3,560.1</u>	<u>2,728.8</u>	<u>2,101.2</u>
Time deposits, due after one year	7.0	10.0	10.0
Loans and investments	300.0	2,327.9	5,659.3
Property and equipment, at cost less accumulated depreciation and amortization	39.9	66.6	201.8
Other assets, net of amortization	<u>17.2</u>	<u>23.8</u>	<u>45.7</u>
	<u>3,924.2</u>	<u>5,157.1</u>	<u>8,018.0</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current liabilities:			
Accrued interest and commitment fees payable	0.1	11.7	35.5
Deferred income	-	4.5	8.1
Accrued expenses	1.0	1.0	-
Total current liabilities	<u>1.1</u>	<u>17.2</u>	<u>43.6</u>
Employees severance liability	5.0	8.2	15.9
Long-term debt			
Government loan	2,025.0	2,025.0	2,025.0
IBRD loan	-	672.5	{ 3,054.6
AID loan	-	21.6	
Total long-term debt	<u>2,025.0</u>	<u>2,719.2</u>	<u>5,079.6</u>

	<u>1968</u>	<u>1969</u>	<u>1970</u>
Stockholders' equity:			
Common stock, W 5,000 par value	1,350.0	1,350.0	1,485.0
Legal reserve	10.0	60.0	90.0
Retained earnings:			
Voluntarily appropriated	90.0	390.0	509.0
Unappropriated	<u>443.1</u>	<u>612.5</u>	<u>713.9</u>
Total stockholders' equity	<u>1,893.1</u>	<u>2,412.5</u> ^{1/}	<u>2,878.9</u> ^{2/}
	<u>3,924.2</u>	<u>5,157.1</u>	<u>8,018.0</u>

^{1/} Before deducting 1969 cash dividend (W 135 million).

^{2/} Before deducting 1970 cash dividend (W 149 million).

KOREA DEVELOPMENT FINANCE CORPORATION

Forecast of Approvals, Commitments and Disbursements, 1970-1975

(Domestic currency: In W million)
(Foreign currency: In \$ '000)

(Year ending December 31)	1970 (actual)	1971	1972	1973	1974	1975
<u>APPROVALS</u>						
Domestic currency loans	1,150	1,300	1,600	1,950	2,000	2,050
Domestic currency equity investments	139	300	400	450	500	550
Foreign currency loans	16,943	19,000	20,000	20,000	21,000	21,000
Total approvals (US\$ equivalent)	20,971	24,000	26,250	27,500	28,813	29,125
<u>COMMITMENTS</u>						
Domestic currency:						
Loans	980	1,380	1,583	1,929	1,996	2,050
Equity investments	100	339	400	400	450	550
Total commitments of domestic currency	1,080	1,719	1,983	2,329	2,446	2,600
Foreign currency loans:						
Total commitments of foreign currency	15,465	21,372	19,780	19,760	20,840	21,000
Total commitments (US\$ equivalent)	18,840	26,744	25,977	27,038	28,484	29,125
<u>DISBURSEMENTS</u>						
Domestic currency:						
Loans	960	1,350	1,525	1,805	1,990	2,000
Equity investments	100	339	300	400	400	550
Total disbursements in domestic currency	1,060	1,689	1,825	2,205	2,390	2,550
Foreign currency loans:						
Total disbursements in foreign currency	7,303	20,222	18,600	18,600	20,000	21,000
Total disbursements (US\$ equivalent)	10,616	25,500	24,303	25,483	27,459	28,969

IBRD/DFC
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KOREA DEVELOPMENT FINANCE CORPORATIONSchedule of Estimated Disbursements of Proposed Loan

	<u>Amount (\$'000)</u>
<u>1971</u>	
Fourth quarter	500
<u>1972</u>	
First quarter	850
Second quarter	1,700
Third quarter	2,400
Fourth quarter	3,100
<u>1973</u>	
First quarter	3,300
Second quarter	3,350
Third quarter	3,425
Fourth quarter	3,150
<u>1974</u>	
First quarter	2,700
Second quarter	2,200
Third quarter	1,550
Fourth quarter	975
<u>1975</u>	
First quarter	475
Second quarter	225
Third quarter	100

IBRD/DFC
March 31, 1971

KOREA DEVELOPMENT FINANCE CORPORATION
Projected Balance Sheets, Year-end 1970-1975
(in W million)

(Year ending December 31)	1970 (actual)	1971	1972	1973	1974	1975
<u>ASSETS</u>						
Cash and short-term deposits	15	27	30	28	31	31
Fixed deposits	1,868	550	650	700	500	400
Short-term investments	-	520	1,030	1,700	2,000	2,130
Accrued interest income receivable	221	259	383	519	629	744
	<u>2,104</u>	<u>1,356</u>	<u>2,093</u>	<u>2,947</u>	<u>3,160</u>	<u>3,305</u>
Outstanding loans:						
Domestic currency	2,387	3,467	4,294	5,002	5,620	6,109
Foreign currency	3,039	9,387	14,789	18,986	22,572	25,521
	<u>5,426</u>	<u>12,854</u>	<u>19,083</u>	<u>23,988</u>	<u>28,192</u>	<u>31,630</u>
Less provision for doubtful loans	(92)	(257)	(382)	(480)	(564)	(633)
	<u>5,334</u>	<u>12,597</u>	<u>18,701</u>	<u>23,508</u>	<u>27,628</u>	<u>30,997</u>
Equity investments	328	667	967	1,442	1,977	2,717
Less provision for doubtful investments	(-)	(13)	(19)	(29)	(40)	(54)
	<u>328</u>	<u>654</u>	<u>948</u>	<u>1,413</u>	<u>1,937</u>	<u>2,663</u>
Total loans and investments	5,662	13,251	19,649	24,921	29,565	33,660
Fixed assets (net)	249	265	278	300	326	364
Organization expense	3	1	-	-	-	-
Total assets	<u>8,018</u>	<u>14,873</u>	<u>22,020</u>	<u>28,168</u>	<u>33,051</u>	<u>37,329</u>
<u>LIABILITIES AND EQUITY</u>						
Tax payable	-	-	94	163	187	223
Accrued interest payable	61	71	114	161	201	240
Dividends payable	149	163	270	398	428	460
	<u>210</u>	<u>234</u>	<u>478</u>	<u>722</u>	<u>816</u>	<u>923</u>
Domestic currency borrowings	2,025	2,025	2,025	2,025	2,025	2,025
Foreign currency borrowings	3,035	9,387	14,803	19,232	23,123	26,281
	<u>5,060</u>	<u>11,412</u>	<u>16,828</u>	<u>21,257</u>	<u>25,148</u>	<u>28,306</u>
Allowance for retirements	16	22	34	49	70	96
Share capital	1,485	1,634	2,700	3,645	3,942	4,268
Reserves and unappropriated surplus	1,247	1,571	1,980	2,495	3,075	3,735
	<u>2,732</u>	<u>3,205</u>	<u>4,680</u>	<u>6,140</u>	<u>7,017</u>	<u>8,004</u>
Total liabilities and equity	<u>8,018</u>	<u>14,873</u>	<u>22,020</u>	<u>28,168</u>	<u>33,051</u>	<u>37,329</u>
Current ratio	10.0:1	5.8:1	4.4:1	4.1:1	3.9:1	3.6:1
Total long-term debt/equity ratio	1.9:1	3.6:1	3.6:1	3.5:1	3.6:1	3.5:1
Debt/equity ratio as defined in Bank Loan Agreement	.65:1	1.87:1	2.31:1	2.47:1	2.69:1	2.77:1

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Income Statements, 1970-1975
(in W million)

(Year ending December 31)	1970 (actual)	1971	1972	1973	1974	1975
<u>INCOME</u>						
Income from loans:						
Domestic currency loans	391	530	670	744	751	831
Foreign currency loans	127	538	1,143	1,661	2,067	2,414
Commitment charge and other fees	49	62	57	63	58	59
	<u>567</u>	<u>1,130</u>	<u>1,870</u>	<u>2,468</u>	<u>2,876</u>	<u>3,304</u>
Dividend income and other income	20	36	103	154	226	287
Income from short-term investments	-	41	217	334	387	474
Interest income from deposits	<u>513</u>	<u>329</u>	<u>147</u>	<u>206</u>	<u>175</u>	<u>90</u>
Total income	<u>1,100</u>	<u>1,536</u>	<u>2,337</u>	<u>3,162</u>	<u>3,664</u>	<u>4,155</u>
<u>EXPENSES</u>						
Interest and commitment charges on borrowings:						
Domestic currency borrowings	81	81	81	81	81	81
Foreign currency borrowings	106	325	824	1,197	1,514	1,790
Commitment charge	48	79	64	70	62	71
	<u>235</u>	<u>485</u>	<u>969</u>	<u>1,348</u>	<u>1,657</u>	<u>1,942</u>
Salaries and other personal expenses	84	112	140	180	220	250
Other administrative and general expenses	111	123	160	180	200	210
Provision for doubtful loans and investments	63	178	131	108	95	83
Amortization	<u>3</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>496</u>	<u>900</u>	<u>1,401</u>	<u>1,816</u>	<u>2,172</u>	<u>2,485</u>
Profit before tax	604	636	936	1,346	1,492	1,670
Provision for tax	-	-	94	163	187	223
Net profit	<u>604</u>	<u>636</u>	<u>842</u>	<u>1,183</u>	<u>1,305</u>	<u>1,447</u>
<u>Appropriation</u>						
Dividends	149	163	270	398	428	460
Reserves and unappropriated surplus	455	473	572	785	877	987
Net Profit as % of Paid-in Capital (end of the period)	40.7	38.9	31.2	32.5	33.1	33.9
Net Profit as % of Equity (end of the period)	22.1	19.8	18.0	19.3	18.6	18.1

KOREA DEVELOPMENT FINANCE CORPORATION
Projected Cash Flow Statements, 1970-1975
(in W million)

(Year ending December 31)	1970 (actual)	1971	1972	1973	1974	1975
<u>SOURCES</u>						
Profit before tax	604	636	936	1,346	1,492	1,670
Add back non-cash charges (depreciation, provisions, write-offs, etc.)	84	196	153	132	125	118
Cash generated from operations	688	832	1,089	1,478	1,617	1,788
Increase in share capital	-	-	903	675	-	-
Draw-down on foreign currency borrowings	2,353	6,471	5,952	5,592	6,400	6,720
Loan collections:						
Against domestic currency loans	11	270	698	1,022	1,237	1,321
Against foreign currency loans	8	123	550	1,755	2,814	3,771
	<u>3,060</u>	<u>7,696</u>	<u>9,192</u>	<u>10,882</u>	<u>12,068</u>	<u>13,600</u>
<u>USES</u>						
Increase in fixed assets	166	26	22	31	35	47
Disbursements of loans:						
Domestic currency loans	960	1,350	1,525	1,805	1,990	2,000
Foreign currency loans	2,353	6,471	5,952	5,952	6,400	6,720
Equity investments	100	339	300	400	400	550
Repayments:						
Against foreign currency borrowings	14	119	536	1,523	2,509	3,562
Increase in receivables	125	38	124	136	110	115
Less increase in payables	(58)	(24)	(244)	(244)	(94)	(107)
Payment of tax	-	-	94	163	187	223
Payment of dividend	149	163	270	398	428	460
Increase (decrease) in short-term investments and cash	(749)	(786)	613	718	103	30
	<u>3,060</u>	<u>7,696</u>	<u>9,192</u>	<u>10,882</u>	<u>12,068</u>	<u>13,600</u>

IBRD/DFC
March 31, 1971

KOREA DEVELOPMENT FINANCE CORPORATION

Financial Forecasts, 1971-1975

(Year ending December 31)	<u>1970</u> (actual)	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
a) Total assets	8,018	14,873	22,020	28,168	33,051	37,329
of which loan and equity portfolio	5,660	13,251	19,649	24,921	29,565	33,660
Long-term debt						
Won subordinated loan	2,025	2,025	2,025	2,025	2,025	2,025
Foreign currency loans	2,900	9,387	14,803	19,232	23,123	26,281
Equity	2,881	3,205	4,680	6,140	7,017	8,004
Long-term debt/equity	1.9:1	3.6:1	3.6:1	3.5:1	3.6:1	3.5:1
Long-term debt/equity as defined in Bank Loan Agreement	0.65:1	1.87:1	2.31:1	2.47:1	2.69:1	2.77:1
b) Earnings before tax and provisions as % of average total assets	10.4	7.0	5.7	5.7	5.1	4.9
Profit after tax and provisions as % of average equity	22.8	21.4	21.3	21.0	19.8	19.2
Reserves and provisions as % of portfolio	23.6	13.8	12.1	12.0	12.4	13.1
Financial expenses as % of average total assets	3.6	4.2	5.2	5.3	5.4	5.5
Administrative costs as % of average total assets	2.9	2.1	1.6	1.5	1.4	1.3
Book value as % of par value ^{1/}	193.3	195.8	174.6	169.6	178.1	187.5
Dividend as % of par value	10	10	10	10	10	10

^{1/} Share capital assumed to be increased each year by 10% stock dividend, and additionally in 1972 and 1973 by new issues for cash.